

**INTERNATIONAL HARVESTER
CANADA**

Annual Report 1974



International Harvester Company of Canada, Limited

General Offices: 208 Hillyard Street, Hamilton, Ontario, L8N 3S5

Annual Report 1974

The fiscal year ended October 31, 1974

Financial Highlights

	1974	1973
Sales	\$550,022,000	\$469,237,000
Net Income	\$ 23,640,000	\$ 21,761,000
Per cent of Sales	4.30%	4.64%
Per cent of Shareholders' Equity — Beginning of Year	19.38%	19.78%
Dividends Paid	\$ 11,700,000	\$ 9,800,000
Income Retained	\$ 11,940,000	\$ 11,961,000
Taxes — Federal, Provincial and Local	\$ 45,728,000	\$ 43,033,000
Depreciation and Amortization	\$ 4,884,000	\$ 4,762,000
Capital Expenditures	\$ 19,977,000	\$ 8,547,000
Long-term Debt	\$ 71,709,000	\$ 54,598,000
Shareholders' Equity at End of Year	\$133,916,000	\$121,976,000
Average Number of Employees (Canada)	7,144	6,510

Ce rapport est publié en français et en anglais. Si vous préférez un exemplaire français, veuillez écrire au Directeur des Relations publiques de la compagnie.



*Officers and Executive Committee (left to right):
W.R. Fleming, W.N. Smith, J.A. Hart, L.W. Lincke, R.E. Penfold, J.L. Wade, E.R. Griffith, E.L. Edmonds.*

Directors and Officers

at October 31, 1974

BOARD OF DIRECTORS

Charles C. Brannan	Joseph A. Hart
William E. Callahan	Lester W. Lincke
Earle L. Edmonds	W. Norman Smith
William R. Fleming	John L. Wade

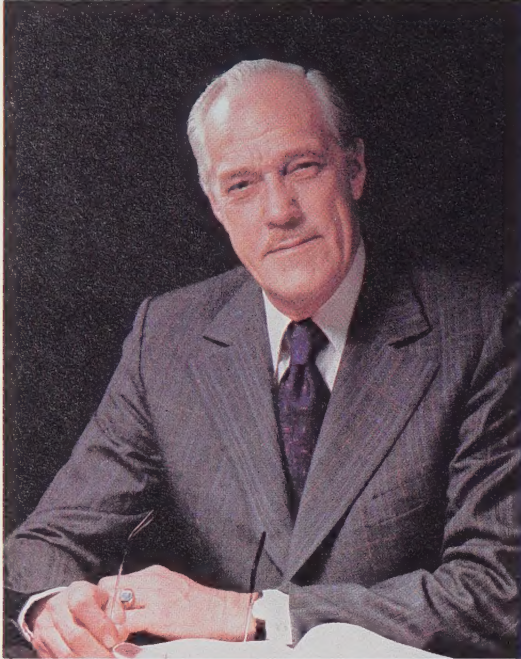
OFFICERS

W. Norman Smith	<i>President</i>
William R. Fleming	<i>Senior Vice President, Marketing</i>
Joseph A. Hart	<i>Vice President, Manufacturing and Employee Relations</i>
Lester W. Lincke	<i>Vice President and Comptroller</i>
John L. Wade	<i>Vice President, Agricultural, Industrial and Construction Equipment Sales</i>
Earle L. Edmonds	<i>Secretary</i>
Edward R. Griffith	<i>Treasurer</i>

OTHER EXECUTIVES

Charles W. Wolfard	<i>Director, Project Planning</i>
Donald A. Brown	<i>Manager, Industrial Equipment Sales</i>
W. Norman Buckingham	<i>Manager, Public Relations</i>
John E. Colby	<i>Manager, Supply and Inventory</i>
T. Donald Husband	<i>Manager, Truck Sales</i>
Alex R. McCombe	<i>Manager, Construction Equipment Sales</i>
Charles J. Munro	<i>Manager, Agricultural Equipment Sales</i>
Lawrence J. Murphy	<i>Manager, Sales Finance</i>
Ronald E. Penfold	<i>Manager, Engineering</i>

President's Letter



In many respects, 1974 was a year of achievement for International Harvester Canada. For the first time, we exceeded the half-billion dollar mark in sales volume. A new level was also attained in net income.

Demand remained strong throughout most of our markets with good acceptance of our products and services. Several factors, including continuing shortages of many materials and components, prevented even greater sales results. I regret the inconveniences these shortages may have caused our customers. At the same time I acknowledge the efforts made by many of our suppliers to maintain our heavy production schedules.

Production and services were also disrupted by labour problems, including several at our own operations. During 1974, strikes were called at the Chatham truck plant, the Candiack construction equipment plant and the Burlington parts distribution centre.

We are continuing to strengthen our manufacturing and marketing organizations. New facilities are being added and others modernized. Dealers and distributors continue to upgrade their operations. They share the Company's belief that providing good service is as vital as quality products in maintaining leadership in our markets.

During 1974, International Harvester Canada acquired Seddon Diesel Vehicles Limited, of Oldham, England. Seddon is a moderate size manufacturer of medium and heavy-duty trucks. Through this acquisition we will be able to participate in a large and important truck market. At the same time, it strengthens IH representation in the United Kingdom and complements corporate expansion in the European market.

The Company's plans and outlook for 1975 will be affected by economic conditions that have developed during 1974. These conditions will influence our markets, at home and abroad, in a variety of ways.

Current prospects in the construction industry centre mainly on road building and major projects. We anticipate continuing demand for our construction equipment and for trucks used in those areas of the economy.

The downturn in housing starts has seriously affected the lumbering industry. This has, in turn, curtailed sales opportunities for logging equipment and trucks. However, this should be partially offset by sales in the pulp and paper segment of the forest industries.

Our 1975 truck business will reflect economic conditions as a whole. Many light-duty trucks are now used as recreational vehicles and this market is dependent on individual incomes. Sales of medium and heavy-duty trucks are directly affected by trends in the general economy. We will be taking every opportunity to expand our participation in a number of markets and industries.

Sales of our Solar turbine engines will continue to grow, particularly as the development and transmission of petroleum products and natural gas becomes even more important.

We expect that demand for some agricultural equipment lines will continue to exceed supply. While harvest weather conditions and disruptions in grain shipments during 1974, along with insufficient returns for livestock producers may have a temporary impact, we are optimistic for the agricultural industry outlook in 1975. In the long term, Canada's farmers can look forward to a buoyant demand in the world's accelerating need for food.

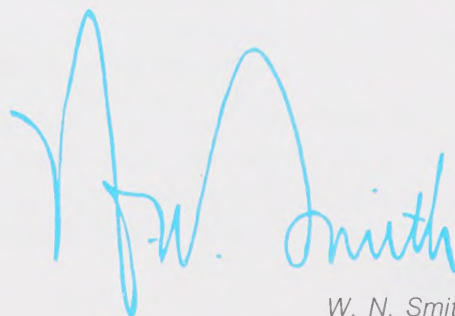
Like many other companies, we move into 1975 with mixed feelings. There is uncertainty as to the course of economic events in this country and throughout the world. Inflation and governmental actions or reactions can cloud any forecast.

Government must assume a more serious-minded approach to its role in curtailing inflation, planning economic growth and fostering secondary industry on which Canada depends for employment. There could well be a more serious and effective attitude to solving the broad economic problems that confront Canada.

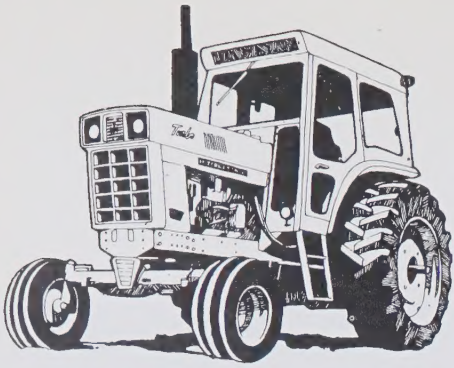
The solution of economic difficulties relies heavily upon the coordination of efforts by business and government. Canada's potential can only be realized when these efforts are integrated and directed toward mutually acceptable objectives.

From the Company's outlook, we are re-assured by the fact that our products are doing vital work in essential industries. Canada's future largely depends on developments in resource industries, utilities, agriculture and transportation. Our products are involved in all these crucial sectors.

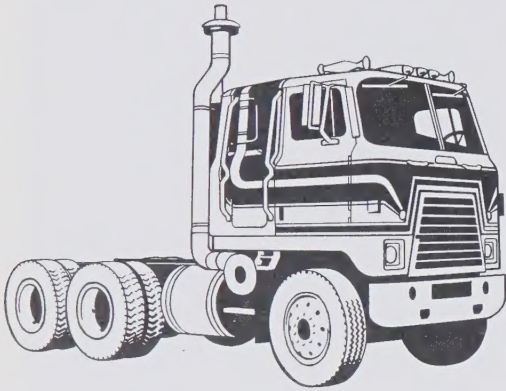
On behalf of the Board of Directors, I take this opportunity to thank our customers for their continued confidence during 1974 and to express our appreciation to employees, dealers and distributors for their dedicated efforts. I am confident that they will continue to make a full and rewarding contribution during the coming year.

A handwritten signature in blue ink, appearing to read 'W. N. Smith'. The signature is fluid and cursive, with the first part being a large, stylized 'W' and 'N'.

W. N. Smith



Opportunities for Continued Growth



In achieving a 1974 sales level of over half a billion dollars, the Company has more than doubled its annual sales volume since 1971.

To maintain this momentum of rapid growth, we have expanded our market research resources to provide more accurate forecasts of needs in the industries we serve and of the company facilities required to meet them.

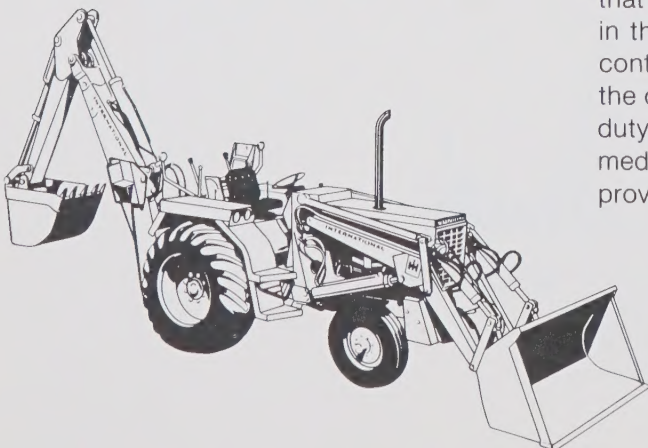
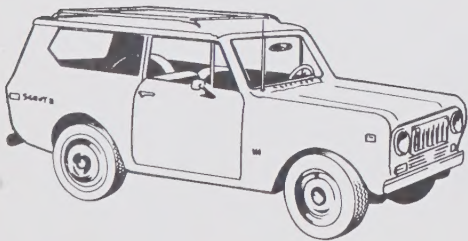
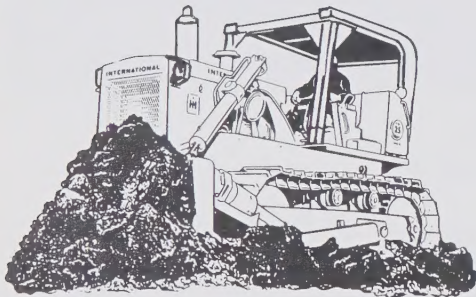
Our optimistic view of the Company's future reflects the outlook for growth in the industries that use our products; resource development, construction, agriculture and transportation. It is estimated that capital investments in these and other sectors of the economy will approach \$500 billion during the next decade.

The continuing trend to larger, more productive equipment will be an important factor in achieving that growth. This trend is evident in products we introduced in 1974. These included two models of heavy-duty off-highway Pacific trucks, the P-510 and the P-12. Along with the P-16, they have a wide range of applications and we are now looking to further markets for these custom-designed trucks.

Several higher horsepower rubber-tired loaders and crawler tractors in our construction equipment and industrial equipment lines were offered in 1974.

Greater productivity in agriculture has become more essential in view of the world food situation. In keeping with this need, we recently introduced two additions to our agricultural tractor line, which now ranges from 10 to 225 horsepower. We also have a new hay baler that can produce 1500 pound bales, requiring less total handling and manpower than the conventional 40 to 70 pound bales.

The final industry demand for trucks in 1974 is expected to reach an all time high of some 300,000 units. This follows the rate of increase that began in 1971. While the total market is expected to level off in the immediate period ahead, there are indications of a strong continuing demand for heavy-duty units. This is consistent with the current trend to larger trucks. During the past four years heavy-duty sales have doubled, compared to a 50 per cent increase in the medium-duty range. Our newest heavy-duty model, the Transtar II, provides for high productivity, driver comfort and convenience.



Recent years have seen the expanding use of light-duty trucks for recreation. Our 1975 models of the popular four-wheel-drive Scout, the Travelall and pickups combine reliability, comfort and a wide selection of options for this consumer market.

We are also making steady gains in supplying outdoor power products for the home. In 1974, we introduced a new line of Cub Cadet tractors designed for quiet operation and easy maintenance. A complete range of attachments for these tractors includes mowers, sweepers, tillage tools and snow blowers.

Together with this positive forecast for our domestic markets, we see increasing potential in the export field. The United States remains our largest export market. However, we are successfully developing new off-shore markets for trucks from our Chatham and Vancouver plants, agricultural equipment from Hamilton and log skidders from Candiatic.

As we look to the years ahead, we see great opportunities both in Canada and abroad, and we are confident that the Company's buoyant growth will be sustained.

Executive Changes

Joseph A. Hart was elected vice president and a director, with responsibility for manufacturing and employee relations.

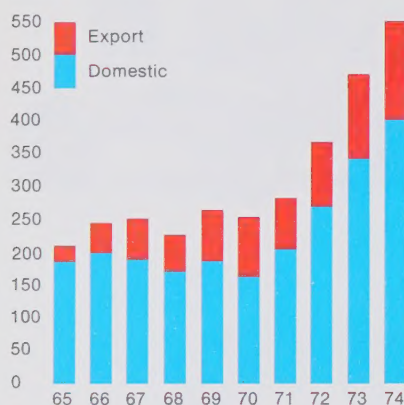
Charles W. Wolfard was appointed Director, Project Planning.

John E. Colby was appointed Manager, Supply & Inventory.

Charles R. Dean, vice president and a director, resigned to accept an executive position with International Harvester Company.

SALES

Millions of Dollars



Financial Review

Sales in 1974 were \$550,022,000 which exceeded 1973 by 17%. This was the greatest volume of business in the Company's history and every product group surpassed its previous sales record. Sales of our Canadian produced goods to export markets were significant and amounted to almost \$150,000,000 in 1974.

Consolidated Net Income was \$23,640,000, an increase of more than 8% over 1973. This is a new high for International Harvester Canada and represents the fourth consecutive year of increased earnings. Costs and expenses rose faster than revenues resulting in a reduced profit on sales to 4.3% from 4.6% in 1973.

Our sales volume in 1974 was limited by the availability of certain products. This situation was caused by basic material and whole goods shortages from suppliers as well as the strikes we experienced at two of our manufacturing plants and our primary service parts distribution centre. The shortage problems also resulted in excess costs to manufacture and distribute. In addition, higher costs were incurred as prices continued to escalate during the year for raw materials and components.

Earnings of International Harvester Credit Corporation of Canada Limited were \$3,641,000, a gain of 3% over the previous record year. The revenue growth was substantial, but the high interest rates prevalent throughout the year curtailed the profitability of our finance operations.

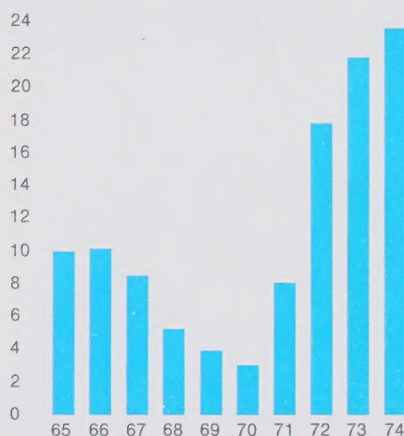
Total inventories of finished goods, raw materials and supplies, and work in process increased from \$85,570,000 in 1973 to \$131,836,000 in 1974. The 1974 figures include \$22,368,000 which represents the inventories of Seddon Diesel Vehicles Limited. Higher inventories were required to sustain the growth of our business in Canada.

Capital expenditures were \$19,977,000 in 1974. Expenditures in 1973 were \$8,547,000. The 1974 total includes the land, buildings and equipment of Seddon Diesel Vehicles Limited at fair market value of \$13,328,000 at the time of acquisition, June 30, 1974. No capital additions or disposals for Seddon Diesel Vehicles Limited subsequent to June 30, 1974 are included. Commitments on appropriations in progress at October 31, 1974 were approximately \$2,925,000. The investment in the expansion and modernization of our Company's operations is an essential element in our plans for accomplishing the growth objectives of our business.

The Company's average employment in Canada in 1974 was 7,144 compared to 6,510 in 1973. Compensation paid to employees in 1974 totalled \$77,959,000, (1973 - \$66,071,000). In addition, approximately \$12,500,000, (1973 - \$11,500,000) was paid for insurance, medical and pension plans and other fringe benefits.

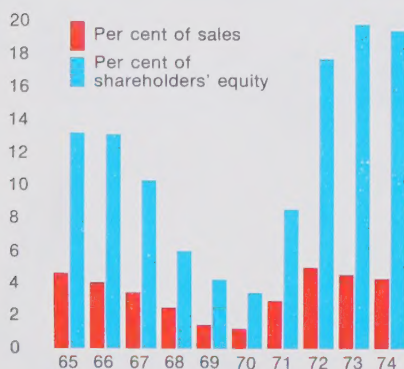
NET INCOME

Millions of Dollars



RETURN ON SALES AND EQUITY

Per cent of sales
Per cent of shareholders' equity





INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

Consolidated Statement of Income and Income Retained

For the Years Ended October 31, 1974 and 1973

SALES AND OTHER REVENUES	1974	1973
Sales		
Dealers and users in Canada	\$401,361,000	\$340,774,000
International Harvester Company	145,170,000	125,242,000
Other affiliated companies and jobbers	<u>3,491,000</u>	<u>3,221,000</u>
	550,022,000	469,237,000
Finance operations revenue	<u>16,220,000</u>	<u>12,440,000</u>
TOTAL SALES AND OTHER REVENUES	<u>566,242,000</u>	<u>481,677,000</u>
 COSTS AND EXPENSES		
Cost of sales	465,475,000	396,824,000
Marketing and administrative expenses	36,267,000	31,843,000
Interest expense	18,550,000	9,839,000
Sundry deductions less other income	2,201,000	2,141,000
Provision for income taxes		
Current	18,763,000	19,112,000
Deferred	<u>1,346,000</u>	<u>157,000</u>
TOTAL COSTS AND EXPENSES	<u>542,602,000</u>	<u>459,916,000</u>
 NET INCOME	 23,640,000	 21,761,000
 DIVIDENDS PAID	 <u>11,700,000</u>	 <u>9,800,000</u>
 INCOME RETAINED — FOR THE YEAR	 11,940,000	 11,961,000
— AT BEGINNING OF THE YEAR	106,976,000	95,015,000
— AT END OF THE YEAR	<u>\$118,916,000</u>	<u>\$106,976,000</u>

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.

**Consolidated Statement of Financial Condition**

October 31, 1974 and 1973

ASSETS	1974	1973
CURRENT ASSETS		
Cash	\$ 148,000	\$ 103,000
Notes receivable (note 1)	125,617,000	98,319,000
Accounts receivable — less allowances	36,614,000	29,667,000
Accounts receivable from affiliated companies	74,000	288,000
Deferred income taxes	1,475,000	1,527,000
Inventories (note 2)	131,836,000	85,570,000
TOTAL CURRENT ASSETS	295,764,000	215,474,000
NOTES RECEIVABLE, LONG-TERM (note 1)	79,476,000	63,296,000
PROPERTY, PLANT AND EQUIPMENT		
At cost, less depreciation and amortization (note 3)	45,854,000	31,631,000
OTHER ASSETS	9,843,000	4,365,000
TOTAL ASSETS	\$430,937,000	\$314,766,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank indebtedness	\$ 53,952,000	\$ 27,277,000
Notes payable	98,671,000	65,992,000
Current invoices, payrolls and accruals	55,942,000	31,622,000
Accrued taxes	7,209,000	5,623,000
Current maturities of long-term debt	5,535,000	5,967,000
Amounts due to affiliated companies	2,710,000	1,711,000
TOTAL CURRENT LIABILITIES	224,019,000	138,192,000
LONG-TERM DEBT (note 4)	71,709,000	54,598,000
DEFERRED INCOME TAXES	1,293,000	—
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized, issued and fully paid — 150,000 common shares of \$100 par value	15,000,000	15,000,000
Income retained	118,916,000	106,976,000
TOTAL SHAREHOLDERS' EQUITY	133,916,000	121,976,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$430,937,000	\$314,766,000

Approved by the Board: W. N. Smith, *Director*
L. W. Lincke, *Director*

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

Consolidated Statement of Changes in Financial Position

For the Years Ended October 31, 1974 and 1973

SOURCE OF WORKING CAPITAL	1974	1973
Net income	\$ 23,640,000	\$ 21,761,000
Items not requiring outlay of working capital		
Depreciation and amortization	4,884,000	4,762,000
Deferred income taxes	1,346,000	157,000
Other	111,000	111,000
Working capital provided from operations	29,981,000	26,791,000
Property disposals	871,000	527,000
Increase in long-term debt	17,111,000	11,100,000
TOTAL SOURCE	47,963,000	38,418,000
APPLICATION OF WORKING CAPITAL		
Capital expenditures		
Canadian facilities	5,528,000	5,102,000
Equipment for lease	1,121,000	3,445,000
Seddon Diesel Vehicles Limited	13,328,000	—
Total capital expenditures	19,977,000	8,547,000
Dividends paid	11,700,000	9,800,000
Increase in notes receivable, long-term	16,180,000	10,273,000
Other — net	5,643,000	471,000
TOTAL APPLICATION	53,500,000	29,091,000
(DECREASE) INCREASE IN WORKING CAPITAL	(5,537,000)	9,327,000
WORKING CAPITAL — AT BEGINNING OF THE YEAR	77,282,000	67,955,000
— AT END OF THE YEAR	\$ 71,745,000	\$ 77,282,000

CHANGES IN WORKING CAPITAL		
Cash	\$ 45,000	\$ 43,000
Marketable securities	—	(2,981,000)
Notes and accounts receivable	34,031,000	19,754,000
Deferred income taxes	(52,000)	(286,000)
Inventories	46,266,000	19,508,000
Bank indebtedness	(26,675,000)	(12,539,000)
Notes payable	(32,679,000)	(10,007,000)
Current invoices, payrolls and accruals	(24,320,000)	(10,414,000)
Accrued taxes	(1,586,000)	4,582,000
Current maturities of long-term debt	432,000	899,000
Amounts due to affiliated companies	(999,000)	768,000
(DECREASE) INCREASE IN WORKING CAPITAL	\$ (5,537,000)	\$ 9,327,000

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.

Auditors' Report

DELOITTE, HASKINS & SELLS

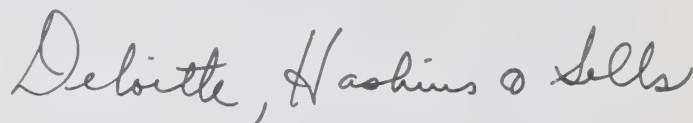
Offices across Canada and associated firms throughout the world Chartered Accountants

105 MAIN STREET EAST HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the consolidated financial statements of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1974 and 1973 and for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements (pages 7 through 11) present fairly the financial position of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1974 and 1973 and the results of their operations and changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, as restated to consolidate the accounts of International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited (Summary of Accounting Policies).



November 26, 1974

Summary of Accounting Policies

Basis of Consolidation

The accompanying financial statements include the accounts of International Harvester Company of Canada, Limited and its wholly-owned subsidiaries, Pacific Truck & Trailer Manufacturing Limited, Seddon Diesel Vehicles Limited (acquired June 30, 1974), Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited.

International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited were not consolidated in the financial statements in prior years but were accounted for under the equity method by which the investment in these subsidiaries was adjusted annually through the statement of income and income retained to reflect the Company's equity in the net earnings of such subsidiaries. These subsidiaries have been consolidated in 1974 to conform with revised reporting requirements issued by the Accounting Research Committee of the Canadian Institute of Chartered Accountants. The 1973 figures have been restated to reflect this method of presentation.

The Consolidated Statement of Financial Condition contains the assets and liabilities of Seddon Diesel Vehicles Limited at June 30, 1974. This subsidiary's income for the period July 1, 1974 to October 31, 1974 has not been included on consolidation.

Investments in co-dealerships are carried at cost.

Foreign Exchange

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Other foreign currency assets and liabilities are translated generally at the exchange rate prevailing at the time of acquisition.

Inventory Valuation

Inventories are valued at the lower of cost or market, market being considered as replacement cost, which does not exceed net realizable value.

Depreciation and Amortization

Depreciation and amortization is generally computed on a straight-line basis over the useful lives of the properties.

Deferred Income Taxes

The Company and its subsidiaries follow the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income taxes are actually payable.

Engineering and Research Expenditures

Expenditures for the development of new and improved products are charged to costs as incurred.

Notes to Consolidated Financial Statements

1. Notes Receivable

	1974	1973
Notes receivable — wholesale	\$ 78,156,000	\$ 64,271,000
— retail	148,356,000	110,358,000
Unearned finance charges	(18,738,000)	(10,485,000)
Allowance for doubtful notes	(2,077,000)	(1,928,000)
Allowance for trade allowances and deferred discounts	(604,000)	(601,000)
Total Notes Receivable	205,093,000	161,615,000
Current portion	125,617,000	98,319,000
NOTES RECEIVABLE, LONG-TERM	\$ 79,476,000	\$ 63,296,000

2. Inventories

Finished goods	\$ 71,857,000	\$ 50,548,000
Raw materials and supplies	45,829,000	24,603,000
Work in process	14,150,000	10,419,000
TOTAL INVENTORIES	\$131,836,000	\$ 85,570,000

3. Property, Plant and Equipment

Buildings, machinery and equipment at cost:		
Manufacturing	\$ 55,462,000	\$ 46,298,000
Distribution	19,022,000	16,626,000
Other	11,861,000	11,133,000
	86,345,000	74,057,000
Less accumulated depreciation	49,067,000	46,053,000
	37,278,000	28,004,000
Tooling and pattern equipment, at cost, less amortization	2,281,000	1,172,000
Land, at cost	6,295,000	2,455,000
NET PROPERTY	\$ 45,854,000	\$ 31,631,000

4. Long-term Debt

International Harvester Company of Canada, Limited		
10½% Medium Term Notes, Series A, due 1976 to 1979 with interest payable semi-annually	\$ 16,225,000	\$ —
Subsidiaries		
5¾% — 12½% Senior Indebtedness, series A to D debentures and notes due 1975 to 1984 with interest payable semi-annually	49,375,000	49,107,000
6% — 7¾% Subordinated Indebtedness — notes, due 1977 to 1993, with interest payable semi-annually (includes \$6,600,000 U.S. funds due to affiliates)	11,111,000	11,111,000
Other long-term obligations — 7% debenture and 7¾% mortgage loans payable in sterling £499,565 to 1991 and a 1977 6% debenture — all secured by subsidiaries' assets	533,000	347,000
	77,244,000	60,565,000
Current portion	5,535,000	5,967,000
LONG-TERM DEBT	\$ 71,709,000	\$ 54,598,000

Covenants attached to the 10½% Medium Term Notes Series A restrict the distribution of earnings subsequent to November 1, 1973 to not more than 60% of consolidated net earnings available for distribution. The senior and subordinated indebtedness of subsidiaries above is secured by net tangible assets as defined by the respective trust deeds.

5. Retirement Plans

The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense for 1974 was \$4,795,000, (1973 — \$4,162,000). Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs which are being funded over 25 years from January 1, 1965. The actuarially computed unfunded liability in respect of past service benefits at October 31, 1974 was \$35,930,000, of which \$29,620,000 was vested in accordance with the terms of the plans but for which the Company does not have a legal obligation.

6. Statutory Information

The remuneration to directors and senior officers, as defined in the Business Corporations Act, Ontario, for the year ended October 31, 1974 amounted to \$339,000 (1973 — \$308,000).

7. Contingent Liabilities

Claims pending against the Company arising out of the conduct of its business include several in which claims are made in substantial amounts. The Company's liability in respect of such claims was not determinable at October 31, 1974, but it is the opinion of the Management that any resulting liability will not materially affect the consolidated financial position or results of operations of the Company and its consolidated subsidiaries.

**Consolidated Statistical Data** (Dollar amounts in millions)

	1974	1973	1972
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SALES BY AREA OF FINAL SALE			
Canada	\$401.4	\$340.7	\$269.4
United States	145.2	125.2	93.0
Europe and Africa	1.1	1.6	1.9
Latin America	1.3	.7	.9
Pacific Area	1.0	1.0	1.2
Total	<u>\$550.0</u>	<u>\$469.2</u>	<u>\$366.4</u>
NET INCOME			
Amount	\$ 23.6	\$ 21.8	\$ 17.8
Per cent of sales	4.30%	4.64%	4.86%
Per cent of shareholders' equity beginning of year	19.38%	19.78%	17.68%
DEPRECIATION AND AMORTIZATION	<u>\$ 4.9</u>	<u>\$ 4.8</u>	<u>\$ 4.0</u>
TAXES — FEDERAL, PROVINCIAL AND LOCAL	<u>\$ 45.7</u>	<u>\$ 43.0</u>	<u>\$ 34.2</u>
CAPITAL EXPENDITURES	<u>\$ 20.0</u>	<u>\$ 8.5</u>	<u>\$ 6.1</u>
SHAREHOLDERS' EQUITY AT END OF YEAR			
Capital stock	\$ 15.0	\$ 15.0	\$ 15.0
Income retained	<u>118.9</u>	<u>107.0</u>	<u>95.0</u>
Total shareholders' equity	<u>\$133.9</u>	<u>\$122.0</u>	<u>\$110.0</u>
REPRESENTED BY			
Current assets	\$295.7	\$215.5	\$179.4
Less: Current liabilities	<u>224.0</u>	<u>138.2</u>	<u>111.4</u>
Working capital	71.7	77.3	68.0
Net property	45.9	31.6	28.3
Notes receivable — long-term	79.5	63.3	53.0
Other assets	9.8	4.4	4.3
Total	<u>206.9</u>	<u>176.6</u>	<u>153.6</u>
Less:			
Long-term debt	71.7	54.6	43.5
Deferred income taxes	1.3	—	.1
Total	<u>73.0</u>	<u>54.6</u>	<u>43.6</u>
Total net assets	<u>\$133.9</u>	<u>\$122.0</u>	<u>\$110.0</u>
AVERAGE NUMBER OF EMPLOYEES (CANADA)	7144	6510	5667

1971	1970	1969	1968	1967	1966	1965
\$204.1	\$161.6	\$187.0	\$170.7	\$194.8	\$201.5	\$187.6
74.2	88.7	74.5	51.7	53.7	42.6	25.0
.6	.4	.3	.9	.8	.4	.4
.3	1.0	1.1	.7	.6	.5	.6
1.7	.5	.6	.9	1.1	1.3	1.1
<u>\$280.9</u>	<u>\$252.2</u>	<u>\$263.5</u>	<u>\$224.9</u>	<u>\$251.0</u>	<u>\$246.3</u>	<u>\$214.7</u>
\$ 8.1	\$ 3.1	\$ 3.9	\$ 5.3	\$ 8.5	\$ 10.2	\$ 10.0
2.88%	1.23%	1.48%	2.36%	3.39%	4.14%	4.66%
8.54%	3.36%	4.28%	6.06%	10.29%	13.08%	13.19%
<u>\$ 3.4</u>	<u>\$ 3.7</u>	<u>\$ 4.5</u>	<u>\$ 4.6</u>	<u>\$ 4.2</u>	<u>\$ 3.2</u>	<u>\$ 2.8</u>
<u>\$ 24.0</u>	<u>\$ 14.1</u>	<u>\$ 16.0</u>	<u>\$ 14.8</u>	<u>\$ 20.2</u>	<u>\$ 19.5</u>	<u>\$ 19.0</u>
<u>\$ 3.1</u>	<u>\$ 3.8</u>	<u>\$ 4.3</u>	<u>\$ 3.7</u>	<u>\$ 7.6</u>	<u>\$ 5.8</u>	<u>\$ 4.0</u>
\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0
85.7	79.8	77.2	76.2	72.4	67.6	63.0
<u>\$100.7</u>	<u>\$ 94.8</u>	<u>\$ 92.2</u>	<u>\$ 91.2</u>	<u>\$ 87.4</u>	<u>\$ 82.6</u>	<u>\$ 78.0</u>
\$160.2	\$141.3	\$144.1	\$126.1	\$122.8	\$121.5	\$107.9
89.6	94.0	92.0	70.6	68.2	60.1	45.2
70.6	47.3	52.1	55.5	54.6	61.4	62.7
27.0	29.0	29.5	29.8	31.0	27.7	25.3
39.5	44.5	35.2	30.6	20.5	13.1	7.7
4.5	4.1	1.7	2.0	2.0	1.8	1.2
<u>141.6</u>	<u>124.9</u>	<u>118.5</u>	<u>117.9</u>	<u>108.1</u>	<u>104.0</u>	<u>96.9</u>
40.4	29.5	26.0	26.1	19.9	20.7	18.4
.5	.6	.3	.6	.8	.7	.5
40.9	30.1	26.3	26.7	20.7	21.4	18.9
<u>\$100.7</u>	<u>\$ 94.8</u>	<u>\$ 92.2</u>	<u>\$ 91.2</u>	<u>\$ 87.4</u>	<u>\$ 82.6</u>	<u>\$ 78.0</u>
4812	5828	6189	6363	7316	7515	6462



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED
208 Hillyard Street, Hamilton, Ontario L8N 3S5

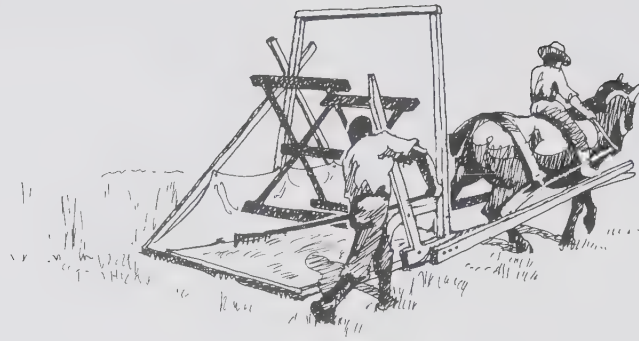
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INTERNATIONAL HARVESTER CANADA



The beginning of a company



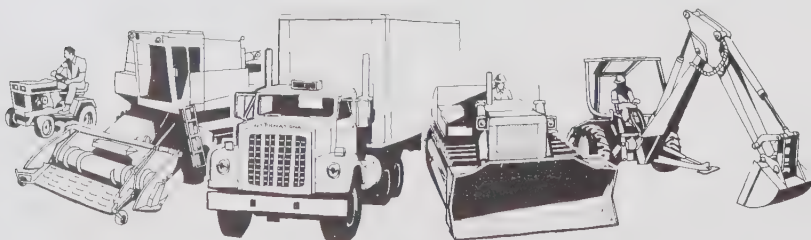
Throughout history the harvesting of grain had been the bottleneck to abundant food production. For thousands of years, grain was slowly and laboriously hand-cut with a sickle or a scythe. There was little real progress for 5,000 years. Until a faster way could be found to harvest grain, there was no real incentive to seek better tillage and planting methods.

Then, in 1831, the bottleneck was broken when Cyrus Hall McCormick demonstrated the first successful reaper. It contained some of the basic principles found in grain harvesters of today. McCormick spent several years in improving his first reaper and in 1846 established a factory in Chicago.

To meet demand and maintain quality, he devised standardized manufacturing methods. He was the first to back a product with broad guarantees, the first to provide a repair parts service and the first to offer credit. Reapers were soon working throughout the United States, Canada and Europe.

The success of the reaper brought a flood of other new farm implements. McCormick added various machines to his line. Many companies, possibly 2,000 at one time, entered the business of manufacturing agricultural equipment.

The two leading manufacturers at the turn of the century were the McCormick organization and the Deering Harvester Company. In 1902 these two companies combined with three smaller firms to form the International Harvester Company. The name was a logical choice, well-suited to the principal product of the time and to a main reason for the new organization — to more effectively serve worldwide markets.



International Harvester Canada

JAN 28 1975

When International Harvester Canada was formed in 1903, agriculture was the mainstay of both the nation and the company.

At that time, the majority of Canadians still lived on the land. The production of agricultural equipment had already become a large manufacturing industry. Over the decades, farm productivity steadily improved with the assistance of new equipment and the introduction of tractor power. Today fewer than seven per cent of Canadians live on farms. While the company is still very much involved in agriculture, it has diversified into many other fields as the needs of Canada changed.

The first International trucks were made in 1907. By the mid-twenties, IH was building trucks in Canada. At about the same time, the first International construction equipment was produced. The mid-fifties saw the introduction of the first line of International industrial equipment. A more recent diversification put the company into the gas turbine stationary power field. We are also in the consumer market, with a broad range of recreation vehicles, as well as outdoor power equipment.

In seventy years, International Harvester Canada has evolved from being a manufacturer of agricultural equipment to a highly diversified company involved in many key segments of the economy; transportation, agriculture, mining, petroleum, forest industries, utilities and recreation.

In addition to our Hamilton Plant, which produces agricultural and industrial equipment, we have truck plants in Chatham, Ontario, and Vancouver, B.C., and a construction and logging equipment plant in Candiach, Quebec. About two-thirds of our total production is exported.

Some 4,400 employees work in our four manufacturing plants. Others are with IH sales and service centres, parts distribution centres, sales offices and other facilities in 40 Canadian communities. Total average employment is 7,000. An equal number of people work with the 600 dealers and distributors who represent the company across the length and breadth of Canada. With domestic and export sales well over the half-billion dollar mark, International Harvester Canada is a large and growing factor in the nation's economy. Because it is part of industries that will play a crucial role in Canada's future, the company's outlook promises continuing growth.

Our products work in essential industries where schedules depend on reliable, productive equipment.



Transportation

Trucks move over half of Canada's total freight. International Harvester provides a full range of models to meet the many individual needs and conditions.

Here the Transtar II is shown in a typical highway hauling application.

The Fleetstar is adaptable to many requirements. Shown with a van-type body, it is also widely used in tractor-trailer operations.

The Loadstar truck, shown hauling grain from a combine, is a popular model on many farms.

The Cargostar is designed to operate in city traffic where maneuverability is especially important.

The truck operator requires a full range of services, from sales engineering assistance to parts and service support. International truck dealers and company centres are located across Canada to provide those services.



Product development

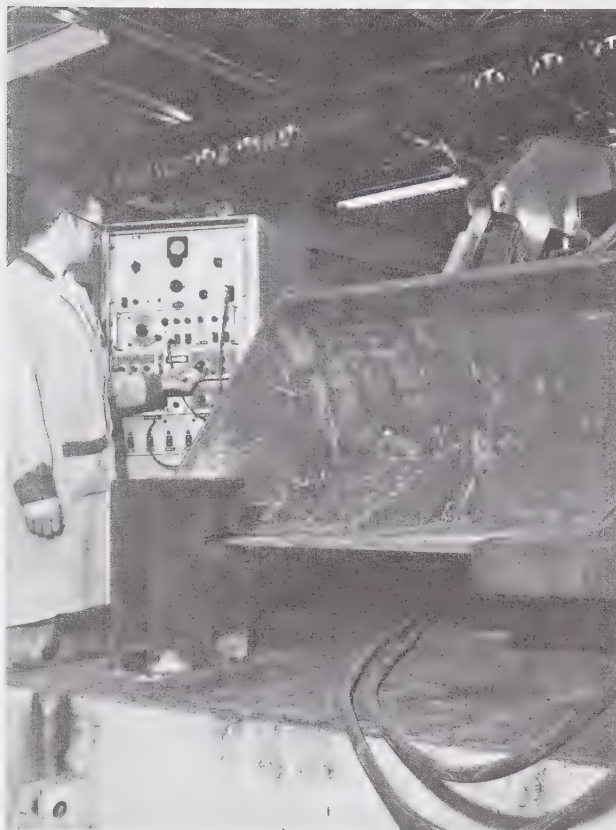
Most of our products have one thing in common; they are production tools for industries that work to schedules and cost controls.

Reliability is therefore much more than a matter of convenience in our products; it is a necessity.

Another factor that influences product design is the constant need for higher productivity, shared by all the industries using our products. Future costs and efficiency in these industries will depend in large measure on the equipment being developed today.

For this reason, our engineers must have a thorough understanding of operating conditions, methods and trends in many key industries, in addition to their technical knowledge. In product development as in many other aspects of our business, we are more than equipment suppliers, we are an integral part of many industries.

Before new designs are released for production, prototype trucks and construction equipment are placed in fleet service, so that IH engineers can monitor performance, economy and reliability. Hamilton-designed agricultural equipment is tested under operating conditions on farms all over North America. This provides for a year-round testing program. It also ensures that the products will conform to various operating conditions throughout our largest export market.



This engineering laboratory test on a loader component condenses months of actual use into a few hours.



Operational safety, combined with modern appearance, is a priority in product design at our Hamilton engineering centre.



Agriculture

As the world looks to Canadian farmers for more and more food, the need increases for higher farm productivity. The 4366 model tractor, pulling two Disk-alls that combine both tillage and seeding operations, is a response to this need.

The IH Cyclo corn planter is an example of how new engineering concepts are assisting in the attainment of greater efficiency. It plants seed by air pressure, for accurate placement and heavier yields.

Agricultural equipment built at Hamilton Plant is used by farmers in many countries.

Distribution is a key factor in agriculture. Here an International Cargostar truck takes milk from a farm to a processing plant.

Harvesting large acreages in Canada's relatively short harvest season is made possible by equipment such as the 915 combine.

Providing farm customers with the parts they need to keep equipment working on schedule is an important dimension of our business. Dealers' inventories are backed by a computerized parts distribution system.



Manufacturing

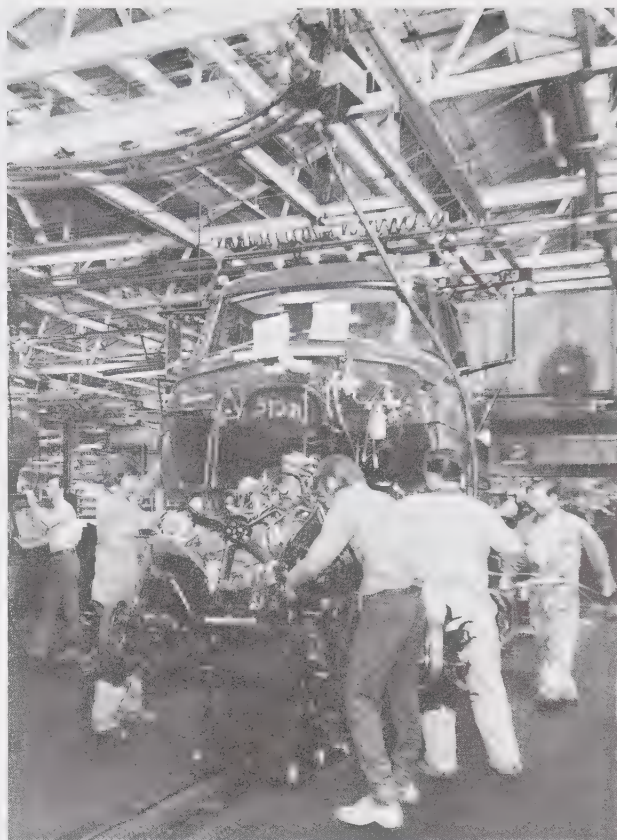
We manufacture trucks, agricultural, construction and industrial equipment. Components fabricated in our own plants are combined with those from hundreds of suppliers and from International Harvester plants in other countries. Hamilton Plant has been steadily modernized over the years since its opening in 1903, to keep pace with the changing needs of agriculture and to incorporate new production equipment and methods. All Hamilton Plant products are designed and engineered in Canada.

International Harvester manufacturing operations in Chatham, Ontario began with a wagon works in 1910. The present truck plant builds two major series for the North American market and for overseas. It is the largest manufacturing operation in the Chatham area. It is also a catalyst for growth among many other plants in the area that provide components, materials and services.

Our construction equipment plant in Candiach, Quebec was opened in 1962 and it too has been steadily expanded to keep pace with demand. Nine models of rubber-tired loaders are manufactured at Candiach, as well as a line of log skidders.

The Vancouver Plant of Pacific Truck & Trailer Ltd. manufactures large, specialized trucks used in logging and other extra heavy-duty operations. Because our plants manufacture such a diverse range of products, there is considerable variation in the production systems and processes. However, there is a consistent concern for quality control throughout each plant. The nature of our business demands the maximum standard of reliability. We thoroughly test raw materials and purchased components, as well as those sourced in the company's plants.

There are frequent inspections throughout the assembly process and the final inspection is exceptionally thorough. Additional pre-delivery checks are made before products are turned over to the customers.



The people at the Chatham plant have earned a worldwide reputation for building quality trucks.



Before shipment, this Hamilton-built crawler tractor is given a complete final inspection.

Construction

Construction projects, large and small, are becoming increasingly important to the Canadian economy. Major projects would be impossible without the massive power of machines like this International crawler tractor.

The Paystar truck, engineered to meet construction needs, is a familiar model on many construction sites.

International Pay loaders, used in almost every type of loading operation, have helped maintain our position as a leader in construction equipment design.

Our industrial equipment line, represented by a backhoe-loader unit, includes a wide variety of equipment such as wheel and crawler tractors, excavators and forklifts.

The Pay scraper shown here, is one model of several used in high-production earthmoving on construction sites, road building and other applications.

The Candiatic Plant, near Montreal, manufactures Pay loaders and Pay loggers.



Marketing

Our marketing operations are strategically located across Canada to concentrate specialized manpower resources close to our dealers, distributors and customers.

This is especially important because of the close involvement of our marketing people with the industries which use our products. One key aspect of this involvement is in the specification of equipment to individual needs. Correct sales engineering is a key to high production, reliability and operating economy. This requires an in-depth understanding of the work to be done. In this regard, our dealers, distributors and their employees provide customers with a service that is integral with our business.

The company has always regarded its dealer and distributor organization as one of its greatest assets. This is increasingly true, as they respond to new opportunities by expanding their resources in manpower, parts and service facilities. The company's business development program fosters efficient management that benefits customers as well as dealers and distributors.

There are 600 independently-owned outlets representing IH across Canada, and 41 company-operated sales and service centres.

The marketing organization is also active in sales to other countries. Our largest export market is the United States. We manufacture the total North American requirements of certain trucks and agricultural machines; a series of medium-duty trucks at Chatham and grain drills, windrowers and other agricultural equipment at Hamilton.

In addition, Canadian-built products are exported to some 70 off-shore markets. We work in close relationship with International Harvester outlets throughout the world and in co-operation with the Canadian government to seek and develop export opportunities.

An important aspect of our marketing activities is the provision to customers of a full range of financing services related to our products. These include purchase, leasing and rental arrangements keyed to the needs of the various industries.

A first-hand knowledge of working conditions is an essential element of sales engineering.



Parts

We have a continuing responsibility to provide replacement parts long after new products have been delivered. We take that responsibility seriously.

The parts distribution centres are the core of the parts system. The master depot is in Burlington, Ontario and others are located in Winnipeg and Edmonton. In addition to the inventories carried at these facilities, stocks of parts are maintained by dealers, distributors, and company-owned outlets.

The scope of the parts supply function is in direct relationship to our broad product range. The 360,000 different parts in the system include many that are seldom requested, others are for equipment no longer manufactured but which must nonetheless be held in inventory. The parts distribution centres are linked by computer with sources throughout North America. In addition, computers speed the processing of the hundreds of parts orders received every day.



Service technicians are kept fully informed of current techniques and data.

Service

The provision of after-delivery service is a high priority requirement to dealers, distributors and the company.

Maintaining today's sophisticated equipment demands highly trained technicians using specialized testing and servicing equipment.

The company operates schools to train techni-

cians and to keep them abreast of new developments. Communications and regular contacts are maintained between company personnel and over 3,500 service technicians who are involved in maintaining and overhauling IH products.

Modern service equipment and proper facilities represent a major investment that, in turn, protects the customer's investment when he purchases our products.

On-the-job maintenance by construction equipment distributors means more productive hours for IH customers.



People

It takes more than a philosophy to meet customer needs and achieve corporate goals. It requires well-trained and dedicated people.

A sense of personal fulfillment is essential if employees are to fully participate in achieving corporate objectives. It is IH policy to keep all doors open to this sense of fulfillment, through development programs to train people for assignments that match their abilities and aspirations.

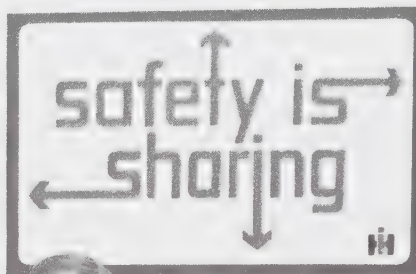
Safety is a paramount concern in all IH operations. Management policies must set the pace with protective equipment and training. But safety programs are most effective when everyone shares a sense of involvement. Our theme "Safety is Sharing" reflects this point-of-view.

The success of International Harvester Canada depends on its people. In turn, that success enables us to meet our responsibilities to customers, employees, dealers, distributors, investors, suppliers . . . and to society as a whole.



Job training, that begins when a new employee joins us, is a continuing process.

Safety programs are based on a full exchange of ideas between everyone involved.



Corporate donations and personal contributions by employees helped build this theatre auditorium.



Social Concerns

What can society expect of a company such as International Harvester?

Customers expect productive, safe and reliable products, backed by dependable parts and service support.

Governments look to business for tax revenues. Business is expected to generate employment opportunities that are secure, rewarding and satisfying. In addition, a company such as ours has a broad community role in supporting the arts, education and other institutions.

From this, one might assume that the only purpose of business is to serve society . . . and that the only measure of a corporation is the fulfillment of its social responsibility.

This view misses a fundamental truth; a primary responsibility of a business enterprise is to be successful. Only then can it earn profits

to invest in product development required to meet customers' changing needs. Only then can it invest in plant expansion to provide the nation's economic foundation through taxes. Only then can it attract capital for growth, and provide investors with an appropriate return.

This relationship between corporate success and social responsibility is often misunderstood. An informed view could lead to a more positive business climate that would contribute greatly to Canada's growth and stability.

Like other companies, we contribute through taxes to educational, medical, cultural, and other institutions. We also contribute in a more direct way. Along with many of our dealers and distributors, we are involved in youth activities and other volunteer services. We see this not only as a responsibility, but as sharing in activities that benefit everyone.



Involvement with young peoples' activities is a long-standing tradition with International Harvester.

Resource Development

International Harvester products are used extensively in the development and conservation of Canada's natural resources.

Fast-moving Pay loaders team up with International Pay hauler trucks in quarries and open pit operations.

The Pay logger provides one answer to the need for high-production efficiency in the forest industry.

International excavators with tree harvester equipment are replacing hard-to-get manpower in many areas.

Our Pacific Truck & Trailer Ltd. plant in Vancouver custom-builds trucks for logging, coal hauling and other extra-heavy-duty requirements.

Solar gas turbines provide power for petroleum production and pipeline operations. We recently established this Solar power support centre in Edmonton.

The International line of crawler tractors builds access roads and performs many other duties in natural resource industries.



Recreation

Many of our products make more leisure time available and also the means to appreciate it.

Design features, such as wide track stability and truck-type construction make the International pickup ideal for the task of carrying a camper unit.

Towing is second nature to a Travelall. With a truck's strength and power, it can comfortably pull a large trailer or boat.

Many Canadians are finding new places to go with the all-wheel-drive International Scout.

While the Cub Cadet tractor is a distant cousin of the giant IH farm tractors, it is engineered with the same concern for reliable performance.

One of winter's chores is easy with an International snowblower. We offer a wide range for the suburban driveway or a long farm lane.



The Future

The continuing growth of International Harvester Canada will parallel the growth of the vital industries using our products. Whether one looks at resource development, agriculture, construction or transportation, there is a need for dramatic expansion in the coming decades. As a major source for food, raw materials and manufactured goods, Canada will call on the industries we serve to help meet expanding global needs.

There is every reason to anticipate continuing growth for International Harvester Canada, and it is equally true that there must be far-sighted

planning to meet new needs long before they arise.

Through our marketing research group we are assessing all available data on the future requirements of the industries that use our products. Top management people are developing long-range plans for the manufacturing, sales and service capabilities that will be required in the years ahead.

International Harvester will continue to fully participate in the economic life of Canada, as the future brings new challenges and opportunities for us all.

Computers play a major role in our day-to-day operations and in planning for the future.





INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED
General Offices: 208 Hillyard Street, Hamilton, Ontario, L8N 3S5

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